

**ASSEMBLY BILL**

**No. 596**

---

**Introduced by Assembly Member Daly**

February 24, 2015

---

An act to amend Sections 5300 and 5810 of the Civil Code, relating to common interest developments.

LEGISLATIVE COUNSEL'S DIGEST

AB 596, as introduced, Daly. Common interest developments: annual budget report.

Existing law governing common interest developments, the Davis-Stirling Common Interest Development Act, requires the association of a common interest development to prepare and distribute to all of its members certain documents, including an annual budget report that includes, among other items of information, a pro forma operating budget. The act requires a notice to be provided if an insurance policy described in the annual budget report lapses, is canceled, or is not immediately renewed, restored, or replaced, or if there is a significant change as to the policy.

This bill would require the annual budget report to also include a statement describing the status of the common interest development as a Federal Housing Administration (FHA)-approved condominium project.

This bill would also require the association of a common interest development to provide a notice to its members if there is any change in the status of the common interest development as an FHA-approved condominium project pursuant to FHA guidelines.

Vote: majority. Appropriation: no. Fiscal committee: no.  
State-mandated local program: no.

*The people of the State of California do enact as follows:*

SECTION 1. Section 5300 of the Civil Code is amended to read:

5300. (a) Notwithstanding a contrary provision in the governing documents, an association shall distribute an annual budget report 30 to 90 days before the end of its fiscal year.

(b) Unless the governing documents impose more stringent standards, the annual budget report shall include all of the following information:

(1) A pro forma operating budget, showing the estimated revenue and expenses on an accrual basis.

(2) A summary of the association's reserves, prepared pursuant to Section 5565.

(3) A summary of the reserve funding plan adopted by the board, as specified in paragraph (5) of subdivision (b) of Section 5550. The summary shall include notice to members that the full reserve study plan is available upon request, and the association shall provide the full reserve plan to any member upon request.

(4) A statement as to whether the board has determined to defer or not undertake repairs or replacement of any major component with a remaining life of 30 years or less, including a justification for the deferral or decision not to undertake the repairs or replacement.

(5) A statement as to whether the board, consistent with the reserve funding plan adopted pursuant to Section 5560, has determined or anticipates that the levy of one or more special assessments will be required to repair, replace, or restore any major component or to provide adequate reserves therefor. If so, the statement shall also set out the estimated amount, commencement date, and duration of the assessment.

(6) A statement as to the mechanism or mechanisms by which the board will fund reserves to repair or replace major components, including assessments, borrowing, use of other assets, deferral of selected replacements or repairs, or alternative mechanisms.

(7) A general statement addressing the procedures used for the calculation and establishment of those reserves to defray the future repair, replacement, or additions to those major components that the association is obligated to maintain. The statement shall include, but need not be limited to, reserve calculations made using

1 the formula described in paragraph (4) of subdivision (b) of Section  
2 5570, and may not assume a rate of return on cash reserves in  
3 excess of 2 percent above the discount rate published by the Federal  
4 Reserve Bank of San Francisco at the time the calculation was  
5 made.

6 (8) A statement as to whether the association has any outstanding  
7 loans with an original term of more than one year, including the  
8 payee, interest rate, amount outstanding, annual payment, and  
9 when the loan is scheduled to be retired.

10 (9) A summary of the association's property, general liability,  
11 earthquake, flood, and fidelity insurance policies. For each policy,  
12 the summary shall include the name of the insurer, the type of  
13 insurance, the policy limit, and the amount of the deductible, if  
14 any. To the extent that any of the required information is specified  
15 in the insurance policy declaration page, the association may meet  
16 its obligation to disclose that information by making copies of that  
17 page and distributing it with the annual budget report. The  
18 summary distributed pursuant to this paragraph shall contain, in  
19 at least 10-point boldface type, the following statement:

20 "This summary of the association's policies of insurance provides  
21 only certain information, as required by Section 5300 of the Civil  
22 Code, and should not be considered a substitute for the complete  
23 policy terms and conditions contained in the actual policies of  
24 insurance. Any association member may, upon request and  
25 provision of reasonable notice, review the association's insurance  
26 policies and, upon request and payment of reasonable duplication  
27 charges, obtain copies of those policies. Although the association  
28 maintains the policies of insurance specified in this summary, the  
29 association's policies of insurance may not cover your property,  
30 including personal property or real property improvements to or  
31 around your dwelling, or personal injuries or other losses that occur  
32 within or around your dwelling. Even if a loss is covered, you may  
33 nevertheless be responsible for paying all or a portion of any  
34 deductible that applies. Association members should consult with  
35 their individual insurance broker or agent for appropriate additional  
36 coverage."

37 (10) *A statement describing the status of the common interest*  
38 *development as a Federal Housing Administration (FHA)-approved*  
39 *condominium project pursuant to FHA guidelines, including*

1 *whether the common interest development is an FHA-approved*  
2 *condominium project.*

3 (c) The annual budget report shall be made available to the  
4 members pursuant to Section 5320.

5 (d) The summary of the association's reserves disclosed pursuant  
6 to paragraph (2) of subdivision (b) shall not be admissible in  
7 evidence to show improper financial management of an association,  
8 provided that other relevant and competent evidence of the financial  
9 condition of the association is not made inadmissible by this  
10 provision.

11 (e) The Assessment and Reserve Funding Disclosure Summary  
12 form, prepared pursuant to Section 5570, shall accompany each  
13 annual budget report or summary of the annual budget report that  
14 is delivered pursuant to this article.

15 SEC. 2. Section 5810 of the Civil Code is amended to read:

16 5810. The association shall, as soon as reasonably practicable,  
17 provide individual notice pursuant to Section 4040 to all members  
18 if ~~any~~ *either of the following occur:*

19 (a) Any of the policies described in the annual budget report  
20 pursuant to Section 5300 have lapsed, been canceled, and are not  
21 immediately renewed, restored, or replaced, or if there is a  
22 significant change, such as a reduction in coverage or limits or an  
23 increase in the deductible, as to any of those policies. If the  
24 association receives any notice of nonrenewal of a policy described  
25 in the annual budget report pursuant to Section 5300, the  
26 association shall immediately notify its members if replacement  
27 coverage will not be in effect by the date the existing coverage  
28 will lapse.

29 (b) *Any change in the status of the common interest development*  
30 *as a Federal Housing Administration (FHA)-approved*  
31 *condominium project pursuant to FHA guidelines, including a*  
32 *description of the type of change, such as the approval,*  
33 *cancellation, or other nonrenewal of the approval.*